

# Nebraska Investment Council

Annual Report  
Calendar Year 2008

# NEBRASKA INVESTMENT COUNCIL



Back row (left to right): John L. Maginn, Shane Osborn, John M. Dinkel, Phyllis Chambers, and David L. Bomberger  
Front row (left to right): Dr. Richard A. DeFusco, Gail Werner-Robertson, and Norman D. Riffel

## **Council Chairwoman**

### ***Gail Werner-Robertson***

President  
GWR Wealth Management, LLC  
Omaha, NE  
Term 2003-2008

## **State Investment Officer**

### ***David L. Bomberger, CFA***

State Investment Officer  
Lincoln, NE

## **Council**

### ***Dr. Richard A. DeFusco, Ph. D., CFA***

Associate Professor of Finance  
University of Nebraska-Lincoln  
Lincoln, NE  
Term 2007-2011

### ***John L. Maginn, CFA***

President  
Maginn Associates, Inc.  
Omaha, NE  
Term 2005-2010

### ***Shane Osborn***

Nebraska State Treasurer  
Lincoln, NE  
Ex Officio  
(non-voting)

### ***John M. Dinkel***

Dinkel Implement Co.  
Norfolk, NE  
Term 2006-2009

### ***Norman D. Riffel***

Metro Moving Services, Inc.  
Omaha, NE  
Term 2008-2012

### ***Phyllis Chambers***

NPERS Director  
Lincoln, NE  
Ex Officio  
(non-voting)

## *Mission Statement*

*The mission of the Nebraska Investment Council is to prudently manage the funds entrusted to us by the people of the State of Nebraska. We deliver investment management services to provide direct financial benefit exclusively to the owners of these funds. We are committed to thorough, sound, and informed analysis in order to achieve superior returns while maintaining prudent levels of risk.*

## State Investment Officer's Report

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I am pleased to present the 2008 Annual Report for the Nebraska Investment Council. This report includes detailed information about the Defined Benefit Plans, the State and County Retirement Plans, and all other assets for which the Investment Council has investment responsibility. At the end of 2008, these assets totaled over \$12.1 billion, a decrease of nearly 21% from year end 2007. In spite of the decline during 2008, the assets that the Council is responsible for more than tripled over the past 13 years.



David L. Bomberger, CFA

### Capital Markets Overview

The U. S. economy officially entered a recession during 2008, brought on by the subprime mortgage crisis and exacerbated by restrictive credit conditions, falling home prices and sharp declines in prices for “risky” assets (e.g. stocks, corporate bonds, etc.). U.S. large cap stocks, measured by the Russell 1000 Index produced a -37.6% return in 2008. U.S. small cap stocks, as measured by the Russell 2000 Index, produced a -34.8% return during the year. International stocks underperformed their U.S. counterparts, with the MSCI EAFE Index returning -43.4% and the MSCI Emerging Markets Index doing even worse, with a return of -53.3%.

Governments around the world took extraordinary actions to support the financial system and to address the global financial crisis. Congress approved \$700 billion in funds to support U. S financial institutions and emergency financial assistance was provided to the U. S. automakers and other financial institutions. The Federal Reserve reduced the Fed Funds rate eight times during 2008 to provide liquidity to the financial system and to restore investor confidence. At the end of the year, this key rate was 0.25%. The U.S. bond market posted positive returns for the year. The Barclays Capital Aggregate Bond Index returned 5.2% in 2008. High yield bonds, reflecting credit concerns, returned -26.2% during 2008.

### 2008 Highlights

As noted, the assets which the Council manages declined to \$12.1 billion, with total net contributions of over \$391 million and total net investment earnings of nearly \$-3.6 billion during the year. Nearly half of the contributions during 2008 were into the College Savings Plans of Nebraska. During the year, net contributions were \$183 million. Nebraska's 529 Plans, also known as the College Savings Plans, were first offered in 2001. Total assets in these Plans at the end of 2008 were nearly \$1.6 billion. New contributions increased in 2008, due, in part, to an increase in the tax deduction for Nebraska taxpayers.

During 2008, the Council, in cooperation with the State Treasurer, completed a request for proposal for global custodian services. As a result of the process, the Council achieved significant cost savings and a substantial increase in income from its securities lending program. In addition, a modification of the fee schedule with an external manager resulted in an annual saving in excess of \$250,000. The Council is focused on finding the most cost effective means to implement its mission.

During 2008, the Council continued to evaluate the diversification benefits and higher expected rates of return created by adding new investment strategies and non-traditional asset classes and continued to implement its previous decisions. As reported previously, the Council has allocated 5% of certain portfolios to private equity investments and 5% to real estate. During 2008, the Council made commitments to five new private equity funds and two new private real estate funds, adding value-added and opportunistic strategies. The new investments described above have been employed in the Defined Benefit Plans and the Cash Balance Benefit option in the State and County Retirement Systems Plans. The Council believes that the illiquidity of private fund investments can be easily managed, and is more than offset by the expected long-term advantages. Where appropriate, the

Council will also utilize these new asset classes in other portfolios it oversees. To this end, the Council added one Private Equity fund of funds and two Private Real Estate funds of funds for the endowment accounts.

The Council understands that the primary investment objective for the assets supporting the Defined Benefit Plans and the Cash Balance Benefit option is to be able to pay future benefits to participants. The Council is focused on the long term nature of these future liabilities. During 2008, the Council completed an asset / liability study for the defined benefit plans. It was determined that the allocation to “risk” assets was appropriate, but that diversification could be improved by reducing the allocation to U. S. equities and increasing the allocation to global equities. Global equities allow managers to allocate the portfolios to the entire world; they are not limited to U.S. stocks or non-U. S. stocks. As a result of this change, one of the active large cap U. S. equities managers was replaced with two active global equities managers. In addition, due to the severe decline in equity values, the Council implemented a futures overlay strategy to rebalance the funds back to within target allocation ranges. This action had a favorable impact on performance during the last month of 2008.

### **Performance**

The total return on the assets supporting the Defined Benefit Plans was -27.8% in 2008. This underperformed the policy benchmark. The dollar impact of this performance is that plan assets declined by \$2.1 billion. The rate of return on the Plans was below the benchmark over the trailing one, three, five, but exceeded benchmark over the ten year periods. The annualized rate of return for the Plans since 1983, the inception of the current performance measurement process, is 8.6%. This is in excess of the actuarial assumption of 8% for the rate of return on the investments, and helps to reduce the long-term cost of operating the Plans.

In the State and County Retirement Systems, the Cash Balance Benefit option is offered to participants and its asset allocation is designed to produce returns that mirror those of the Defined Benefit Plans. In 2008, the assets supporting the Cash Balance Benefit option earned -27.8%, equal to the Defined Benefit Plans. Since the new option was implemented in 2003, the average annualized rate of return is 4.1%. The interest credit rate averaged 5.1% over this same time-period.

The rate of return for participants in the Defined Contribution option of the State and County Retirement Systems, the State Deferred Compensation Plan, and the Nebraska Educational Savings Plan Trust are dependent upon the investment funds selected by the participants. In all of these Plans, a variety of investment options such as equity, fixed income, and premixed funds are offered. The Council recognizes that the investment objectives and risk tolerance of individual participants can differ considerably, and thus seeks to provide a sufficient range options to meet the needs of the participants. For the investment information on the portfolios for which the Council is responsible, please see the appropriate section following in this report.

### **Conclusion**

Gail Werner-Robertson was reappointed by Governor Heineman to serve as the Chairwoman of the Nebraska Investment Council.

We experienced unprecedented declines in asset prices during 2008. As fiduciaries of the assets entrusted to our care, the Council strives to understand each portfolio’s objectives, invest accordingly, and focus on long-term results rather than short-term volatility. We are committed to investing solely in the interests of the beneficiaries of the funds we manage.

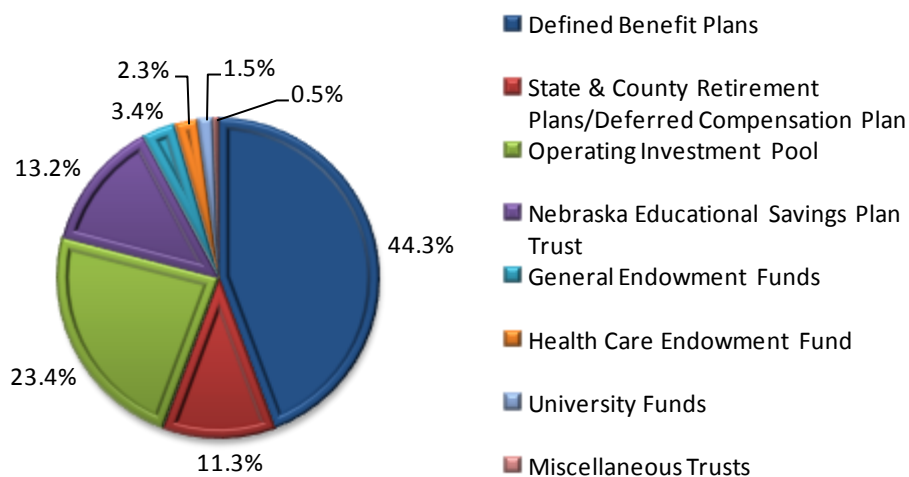
Sincerely,



David L. Bomberger, CFA  
State Investment Officer

## Executive Summary

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The Nebraska Investment Council manages the investments of 31 different entities. Numerous organizations may be included in an entity, such as the many separate departments of State government in the Operating Investment Pool. These 31 entities fall into the eight major categories displayed above. For example, the pension plans for the employees of the Schools, the State Patrol, and Judges have similar characteristics and are grouped under “Defined Benefit Plans.” The pension plans for State and County employees have different characteristics and are listed separately. For all these entities, the Council’s responsibilities are primarily regarding asset management. It does not determine the amount of funds contributed to nor disbursed from the funds it manages.

The Council portfolios experienced a \$391 million net external cash inflow during 2008. The two largest contributors to this were the Nebraska Educational Savings Plan Trust which had a \$183 million cash inflow and the State and County Retirement Plans/Deferred Compensation Plan with a \$282 million net cash inflow.

During the thirteen years displayed on the following page, assets have grown from \$3.7 billion to \$12.1 billion. Approximately \$4.1 billion of this increase is attributable to investment returns during the period. The largest investment returns for any one year occurred in 2006, with investment gains of \$1.5 billion. The asset base increased by approximately \$0.8 billion due to the Council assuming responsibility for the State and County Retirement Plans’ assets in 1997, \$0.1 billion from the Nebraska Educational Savings Plan Trust in 2002, and \$0.2 billion from the University Trust Funds in 2005. Approximately \$3.3 billion was due to net cash inflows to the various funds.

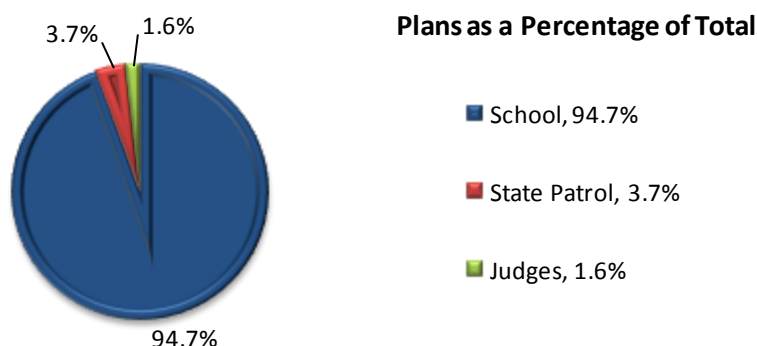
This report is intended to provide an overview of the investment management activities of the Council. All figures are believed to be materially accurate within the context of this report. Returns on all funds managed by the Council are reported net of fees unless noted otherwise.



## Defined Benefit Plans – School, State Patrol, and Judges

### OVERVIEW

The Defined Benefit Plans are comprised of the School Retirement System of the State of Nebraska, the Nebraska State Patrol Retirement System, and the Nebraska Judges' Retirement System. For these plans, the benefit is determined by formula and does not depend on investment results.



Funding for the three plans comes from a variety of sources. For the School plan, active employees contribute 7.28% of their pay. School districts contribute 101% of the employee's contribution and the State contributes 0.7% of payroll. The State also contributes to a COLA (cost of living adjustment) which is currently funded by an annual contribution in an amount set by statute. For the Patrol plan, the passage of LB324 set contribution rates at 13% for employees and 15% for the employer. For the Judges' plan, active employees contribute 8% of pay for up to 20 years of service. Members with more than 20 years of service contribute 4% of pay. The plan is also funded by court fees assessed on various court filings. At present, the State makes no contributions to the Judges' plan.

### 2008 HIGHLIGHTS

The themes in 2008 were a continuation of commitments to private real estate and private equity investments and a refinement of the public equity program subsequent to an asset / liability study by the Council's investment consultant.

Private real estate decisions included a \$25 million commitment to CBRE Strategic Partners U.S. Opportunity Fund V and a \$25 million commitment to Five Arrows Realty Securities V, LP.

The Council approved several private equity investments throughout the year. These included a €20 million commitment to Bridgepoint Europe IV, L.P., \$20 million to Quantum Energy Partners V, L.P., €20 million to CVC European Equity V, L.P., \$20 million to Lincolnshire Equity Fund IV L.P., and \$10 million Accel-KKR Capital Partners III, L.P.

The Council undertook an asset / liability study and then reviewed the plans' strategic asset allocation. A key outcome of a review of this nature is to determine the split between fixed income assets and equity assets. The Council chose to maintain a 30% fixed income / 70% equity structure.

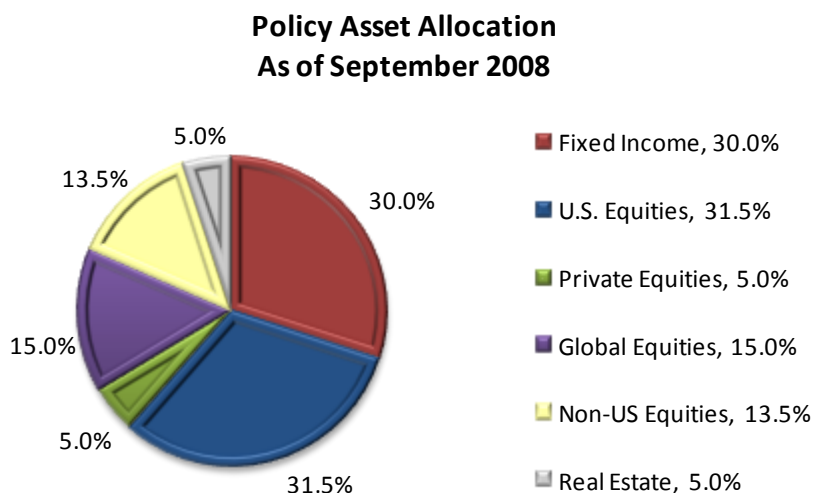
Within the equity pools, McKinley Capital Management was retained to manage a non-US Growth mandate. The Council chose to increase the allocation to global equity from 5% to 15% of total plan. Global equity is defined as US equity plus non-US equity. At this time, the Council also approved a small increase to the non-US equity portfolio from 12.5% to 13.5% of plans' total. The Council terminated Alliance Bernstein, which managed an active large cap core mandate, to accomplish two

goals. One, this action was a strategic re-deployment of active risk from US equity to global equity; and two, it funded, in part, the increase to the global equity allocation.

Mondrian Investment Partners, Ltd. and IronBridge Capital Management, L.P. were identified and approved by the Council to serve as investment managers in the expanded global equity portfolio.

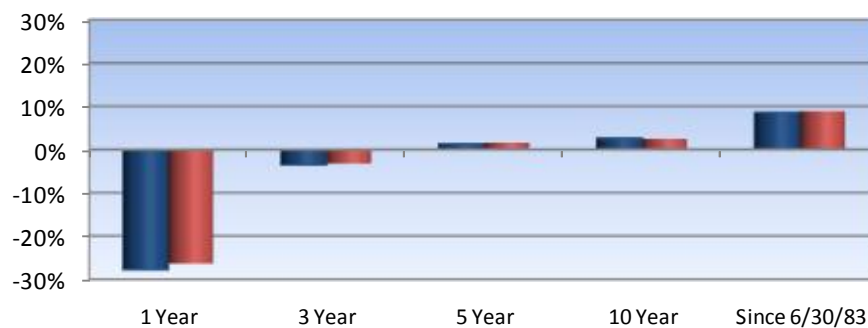
## ASSET ALLOCATION

The Council invests the funds of the Defined Benefit Plans in six major asset classes: U.S. equities, private equities, global equities, international equities, real estate, and fixed income. The Council has adopted the same long-term asset allocation policy for all three plans. Due to the nature of the liabilities (pension payments), defined benefit plans have very long investment time horizons.



## PERFORMANCE SUMMARY

### DB Plans - School, State Patrol, Judges



	1 Year	3 Year	5 Year	10 Year	Since 6/30/83
■ DB Plans	-27.8%	-3.6%	1.3%	2.6%	8.6%
■ Benchmark*	-26.4%	-3.2%	1.6%	2.4%	8.8%

\*This is a blended benchmark - 2Q03 to 2Q04: 50% Wilshire 5000/35% Citigroup LPF/15% MSCI ACWI ex-U.S. Beginning 3Q04, the fixed income benchmark was gradually transitioned from the Citigroup LPF to the Lehman Brothers U.S. Universal Bond Index. Thus, during 3Q04 and 4Q04, the fixed income benchmark is a compilation of both the Citigroup LPF and the Lehman Brothers U.S. Universal Bond Index. As of 1/1/05, the fixed income benchmark is solely the BarclaysCapital Universal Index.

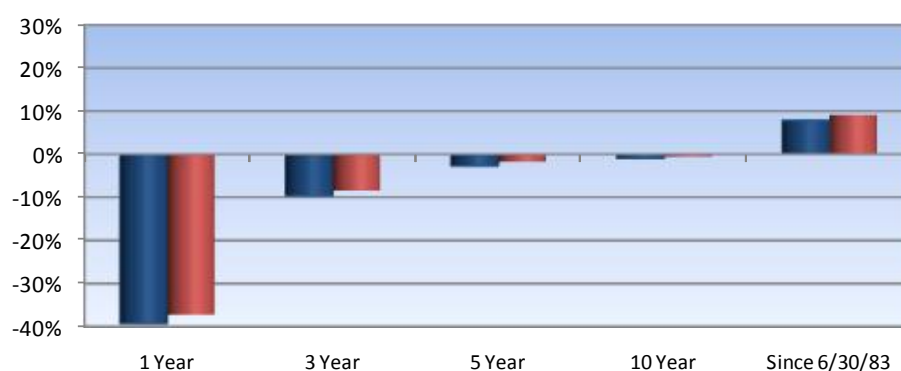
The three defined benefit plans are invested identically and share the same investment results. For the calendar year, the total portfolio had a loss of -27.8% versus benchmark loss of -26.4%. U.S. equity,



fixed income and real estate detracted from performance, while non-U.S. equity and global equity contributed to relative performance.

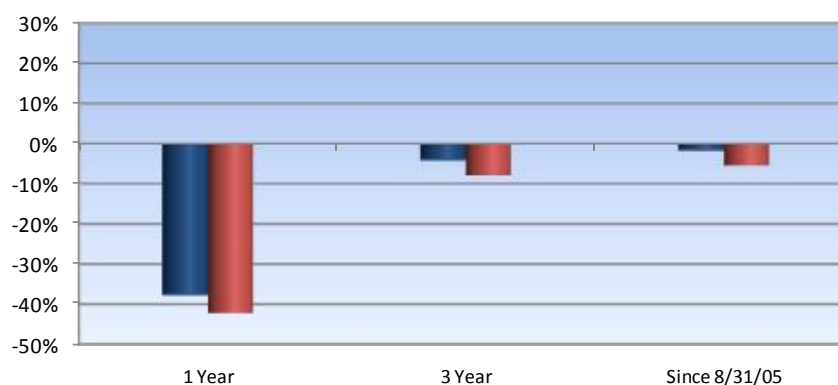
The U.S. equity portfolio underperformed the benchmark, -39.3% versus -37.2%, respectively. The rate of return of the non-U.S. equity portfolio was -45.1% while the benchmark returned -45.2%. The real estate program lost -15.2% versus a benchmark return of 2.3%. The global equity portfolio returned -37.6%, while its benchmark returned -42.2%. Finally, the fixed income portfolio had a return of -1.8% while the benchmark returned 2.4%.

## U.S. Equity Composite



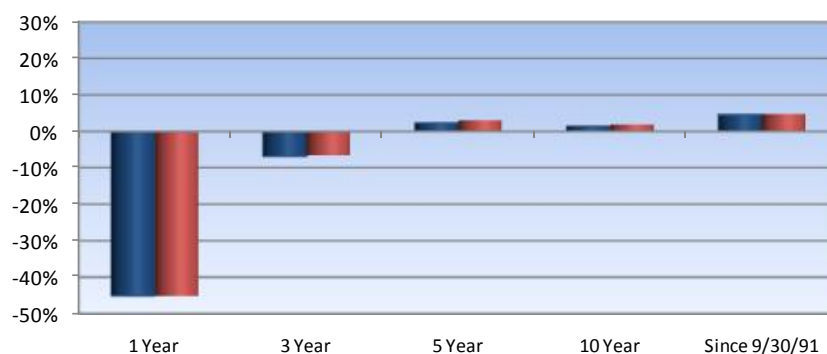
	1 Year	3 Year	5 Year	10 Year	Since 6/30/83
■ U.S. Equity Composite	-39.3%	-9.7%	-2.7%	-0.9%	7.9%
■ DJ Wilshire 5000	-37.2%	-8.4%	-1.7%	-0.6%	9.1%

## Global Equity Composite



	1 Year	3 Year	Since 8/31/05
■ Global Equity Composite	-37.6%	-4.0%	-1.6%
■ MSCI All-Country World Index	-42.2%	-7.9%	-5.4%

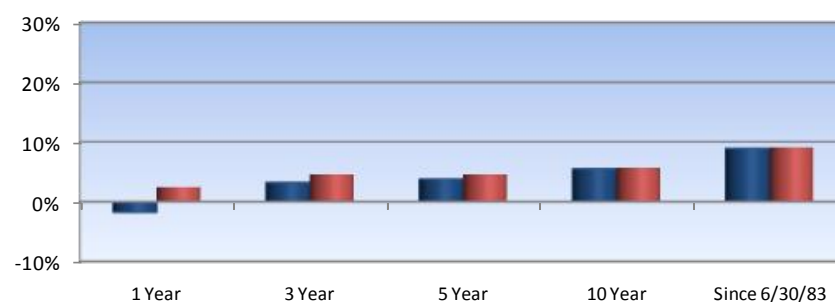
## Non-U.S. Equity Composite



	1 Year	3 Year	5 Year	10 Year	Since 9/30/91
Non-U.S. Equity Composite	-45.1%	-6.9%	2.3%	1.4%	4.6%
Benchmark*	-45.2%	-6.6%	3.0%	1.9%	4.7%

\*4Q1991-Sept. 2000 MSCI EAFE; Oct. 2000-present MSCI ACWI ex-U.S.

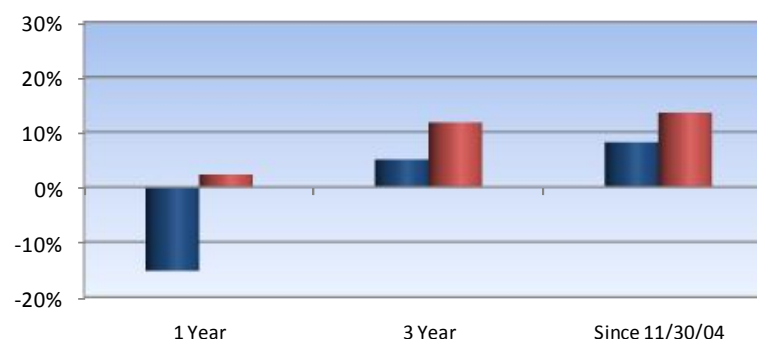
## Fixed Income Composite



	1 Year	3 Year	5 Year	10 Year	Since 6/30/83
Fixed Income Composite	-1.8%	3.2%	3.8%	5.5%	8.9%
Benchmark*	2.4%	4.6%	4.6%	5.7%	9.1%

\*Prior to Sept. 2004, the Citigroup LPF Index. As of September 2004, the fixed income benchmark was gradually transitioned to the Barclays Universal Index. Therefore, from 9/1/04 to 12/31/04, the fixed income benchmark is a compilation of both the Citigroup LPF and the Barclays Universal Index. Beginning 1/1/05, the fixed income benchmark is solely the Barclays Universal Index.

## Real Estate Composite



	1 Year	3 Year	Since 11/30/04
Real Estate	-15.2%	5.0%	8.1%
Benchmark*	2.3%	11.7%	13.5%

\*Prior to March 2006, the DJ Wilshire Real Estate Securities Index. As of March 2006, 75% National Council of Real Estate Investment Fiduciaries Properties Index and 25% DJ Wilshire Real Estate Securities Index.

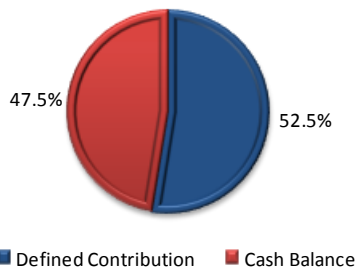
## State and County Retirement Systems & State Deferred Compensation Plan

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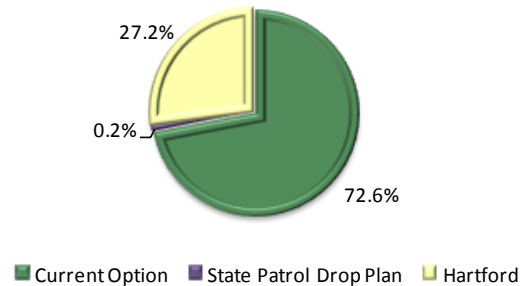
### OVERVIEW

The Nebraska Investment Council determines the investments for the State Employees Retirement System of the State of Nebraska, the Retirement System for Nebraska Counties, and the State Deferred Compensation Plan. In the Retirement System for Nebraska Counties, all counties are included except Lancaster and Douglas counties. Prior to 1997, the State Deferred Compensation Plan was managed by Hartford Life Insurance Company. Some assets still remain with Hartford.

State & County Retirement Systems



State Deferred Compensation Plan



### State and County Retirement Systems

#### Defined Contribution Option

Prior to 2002, employees in the State and County Retirement System Plans were only offered the Defined Contribution option. In December 2002 participants were given the option to remain in the Defined Contribution option or transfer to the Cash Balance Benefit option implemented in January 2003. LB328, passed in 2007, allowed Defined Contribution members another opportunity to transfer to the Cash Balance Benefit option.

Members who remain in the Defined Contribution option make their own investment choices based on the funds offered. Contributions to these accounts come from both the employee and the employer. With the passage of LB 366, State employees are required to contribute 4.8% of their salary (beginning January 2007). The State matches the employee contribution at the rate of 156%. County employees are required to contribute 4.5% of their salary. The county matches the employee contribution at the rate of 150%. The account balance for both state and county employees consists of accumulated contributions plus investment gains or losses.

#### Cash Balance Benefit Option

Since January 2003, the accounts for all new employees who participate in the State and County Retirement System Plans are automatically invested in the Cash Balance Benefit option. Members who participate in the Cash Balance Benefit option do not make their own investment choices. Contributions to these accounts come from both the employee and the employer, and the rates are identical to those in the Defined Contribution option. The assets are held in a trust fund which is managed by the Nebraska Investment Council. Cash Balance Benefit participants are guaranteed an annual interest credit rate which is defined in statute as the greater of 5% or the federal mid-term rate plus 1.5%. The interest credit rate is reset each calendar quarter.

## **State Deferred Compensation Plan**

### Deferred Compensation Plan (current version)

The voluntary Deferred Compensation Plan for State employees offers the same investments as those offered in the State and County Retirement Systems' Defined Contribution option. Combining the investment options of the State Deferred Compensation Plan and the much larger State and County Defined Contribution option provides a major reduction in costs for participants making voluntary contributions.

### Hartford

Effective January 1, 1997, the investment management of the State Deferred Compensation Plan assets was changed from Hartford Life Insurance Company to the Nebraska Investment Council, with different investment options. Contributions to the Hartford investment options have not been allowed since then and participants remaining in the Hartford investment options may transfer their balances from Hartford to the current State Deferred Compensation investment options at any time. Given the absence of new cash flows, the Council expects the Hartford investment options to lose assets over time.

### State Patrol Drop Plan

A new retirement payment option called "DROP" has been added to the State Patrol Retirement Plan effective September 1, 2008. DROP stands for Deferred Retirement Option Plan. The new feature is voluntary and provides a way for a Patrol Plan member to receive a lump-sum amount at retirement in addition to an ongoing monthly retirement benefit, in exchange for working up to five more years (but not beyond age 60). The account will be invested by the member using the 13 investment funds offered in the voluntary Deferred Compensation Plan (DCP). The member assumes full responsibility for how the DROP account is invested and for any market gains or losses.

## **2008 HIGHLIGHTS**

### Defined Contribution Option/Deferred Compensation Plan (current version)

Effective September 1, 2008, the Deferred Retirement Option Plan (DROP) was created. All accounts in this plan are invested by the member using the same investment funds offered in the voluntary Deferred Compensation Plan.

### Cash Balance Benefit Option

The passage of LB328 in 2007 allowed participants in the Defined Contribution Plan the option to retain their current Defined Contribution account or move their account to the Cash Balance Benefit option. Elections made at the end of 2007 were in effect starting in 2008.

The themes in 2008 were a continuation of commitments to private real estate and private equity investments and a refinement of the public equity program subsequent to an asset / liability study by the Council's investment consultant.

Private real estate decisions included a \$25 million commitment to CBRE Strategic Partners U.S. Opportunity Fund V and a \$25 million commitment to Five Arrows Realty Securities V, LP.

The Council approved several private equity investments throughout the year. These included a €20 million commitment to Bridgepoint Europe IV, L.P., \$20 million to Quantum Energy Partners V, L.P., €20 million to CVC European Equity V, L.P., \$20 million to Lincolnshire Equity Fund IV L.P., and \$10 million Accel-KKR Capital Partners III, L.P.

The Council undertook an asset / liability study and then reviewed the plans' strategic asset allocation. A key outcome of a review of this nature is to determine the split between fixed income assets and equity assets. The Council chose to maintain a 30% fixed income / 70% equity structure.

Within the equity pools, McKinley Capital Management was retained to manage a non-US Growth mandate. The Council chose to increase the allocation to global equity from 5% to 15% of total plan. Global equity is defined as US equity plus Non-US equity. At this time, the Council also approved a small increase to the non-US equity portfolio from 12.5% to 13.5% of plans' total. The Council terminated Alliance Bernstein, which managed an active large cap core mandate, to accomplish two goals. One, this action was a strategic re-deployment of active risk from US equity to global equity; and two, it funded, in part, the increase to the global equity allocation.

Mondrian Investment Partners, Ltd. and IronBridge Capital Management, L.P. were identified and approved by the Council to serve as investment managers in the expanded global equity portfolio.

Positive investment returns in 2007 enabled the Public Employees Retirement Board (PERB) to approve a dividend for State and County Cash Balance Benefit members. A member's 12/31/07 account balance was multiplied by an earnings factor of 5.18% for State Plan members and 5.34% for County Plan members. The dividend was distributed during fourth quarter 2008. Any dividends granted in the future will conform to the PERB's new policy which states that a dividend plus the annual interest credit (set by statute as the federal mid-term rate plus 1.5%) cannot exceed 8.0% unless a majority of the PERB agrees.

#### Hartford

The Hartford plan investment choices were reviewed during 2007. The Council approved a number of changes to the Hartford fund line-up. These changes were implemented in early 2008.

## State and County Retirement Systems Investment Option 1 – Defined Contribution & State Deferred Compensation Plan

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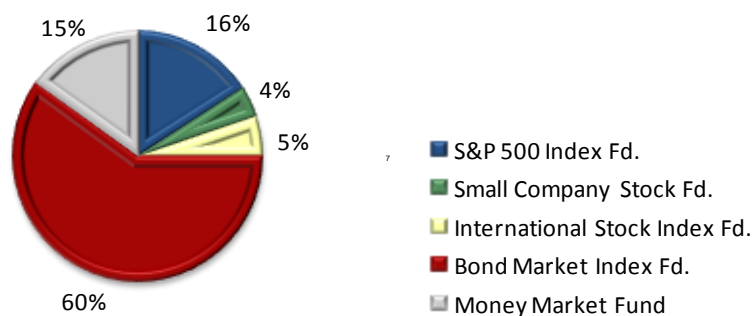
### ASSET ALLOCATION

For both employee and employer contributions, a participant selects among twelve investment funds offered by the Plans. The Council selects, monitors, and terminates, when necessary, these funds. Because participants direct the investment of these contributions, the participant determines the allocation to each of these funds. Prior to July 1, 1999, participants did not determine the investment option for the employer contributions into the Plans. In 1999, the Nebraska State Legislature, in coordination with the Council and the Public Employees Retirement Board, changed the provisions to allow participant direction over employer contributions.

The State Deferred Compensation Plan is voluntary and participants may choose to invest their assets in any of the available Defined Contribution investment funds. By offering the same investment funds for both the Defined Contribution option (mandatory contributions) and the State Deferred Compensation Plan (voluntary contributions), plan participants may find it easier to implement an integrated investment strategy. Combining the investment options also provides a reduction in costs for participants.

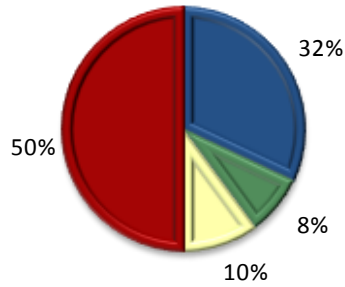
Participants may choose to invest in eight individual investment funds, four premixed funds, or the Age-Based option. Assets in the premixed funds are invested in several of the other fund offerings according to target allocations. The Age-Based option utilizes these existing premixed funds to function together as a “life cycle” fund. This means that asset allocations will automatically become more conservative as the member gets closer to retirement age. The target allocations are displayed below for the premixed funds.

**Conservative Premixed Fund**

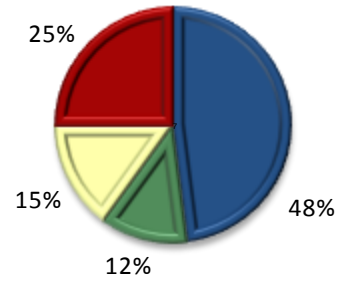




**Moderate Premixed Fund**

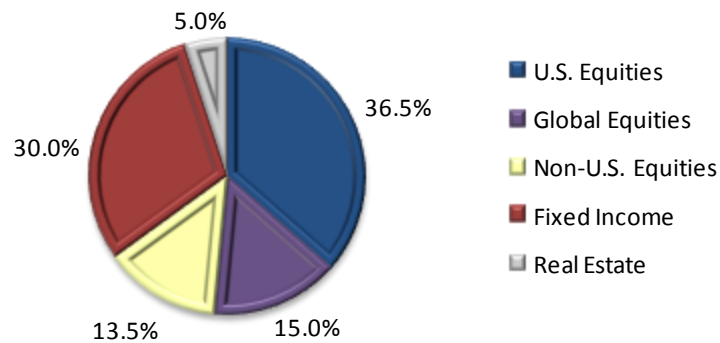


**Aggressive Premixed Fund**



The Investor Select Fund is invested substantially similar to the Defined Benefit Plans for the School Retirement System of the State of Nebraska, the Nebraska State Patrol Retirement System, and the Nebraska Judges' Retirement System.

**Investor Select Fund**



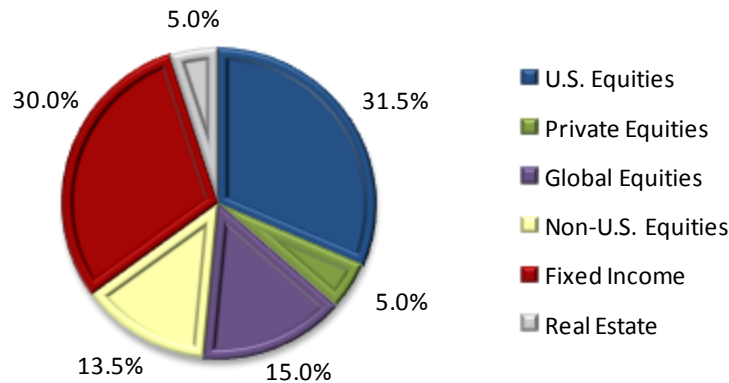
## State and County Retirement Systems

### Investment Option 2 – Cash Balance Benefit

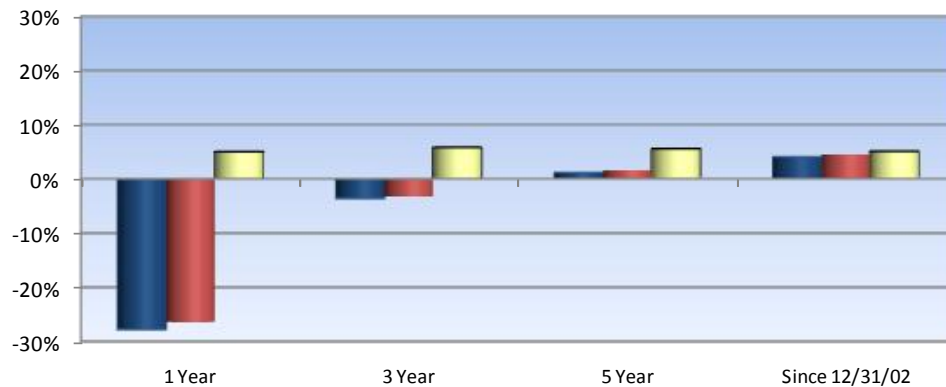
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#### ASSET ALLOCATON

The Nebraska Investment Council has chosen the following investment strategy for the Cash Balance Benefit option. This strategy is designed to mirror the investment strategy of the Defined Benefit Plans.



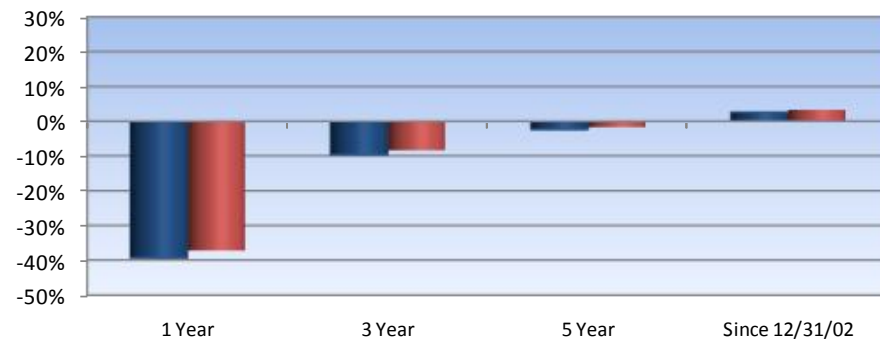
#### PERFORMANCE SUMMARY



	1 Year	3 Year	5 Year	Since 12/31/02
■ Cash Balance Benefit	-27.8%	-3.6%	1.2%	4.1%
■ Benchmark	-26.4%	-3.2%	1.6%	4.5%
■ Interest Credit Rate	5.0%	5.8%	5.6%	5.1%

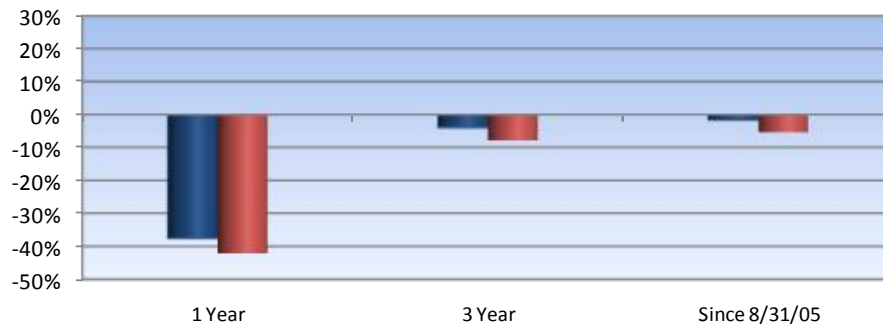
The investments in the Cash Balance Benefit option returned -27.8% in 2008. This return is below the crediting rate earned by participants during the year. In 2008, participants in the Cash Balance Benefit earned an average of 5.0%, as the federal mid-term rate plus 1.5% was at or below 5%, the guaranteed minimum crediting rate. When investment performance results are above the interest credit rate plus the required reserve, the Public Employees Retirement Board has the option to issue a dividend to plan members, or the Nebraska State Legislature may pass legislation to improve plan benefits. In 2008, the Public Employees Retirement Board issued a dividend for the time period 1/1/07 through 12/31/07. The dividend was 5.18% for State Cash Balance participants and 5.34% for County Cash Balance participants.

## U.S. Equity Composite



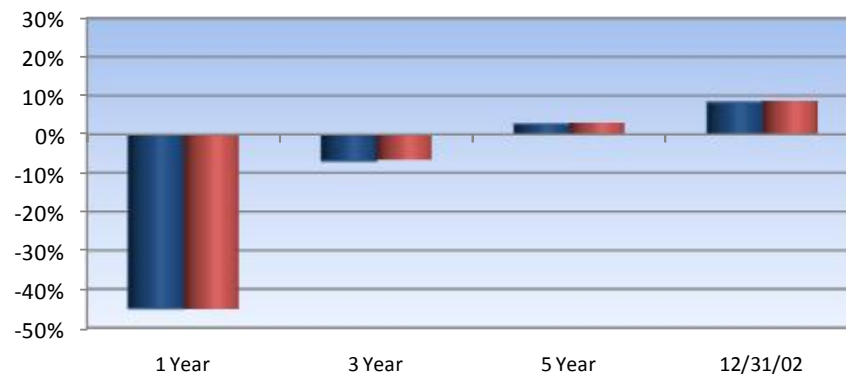
	1 Year	3 Year	5 Year	Since 12/31/02
■ U.S. Equity Composite	-39.3%	-9.7%	-2.4%	2.6%
■ DJ Wilshire 5000	-37.2%	-8.4%	-1.7%	3.2%

## Global Equity Composite



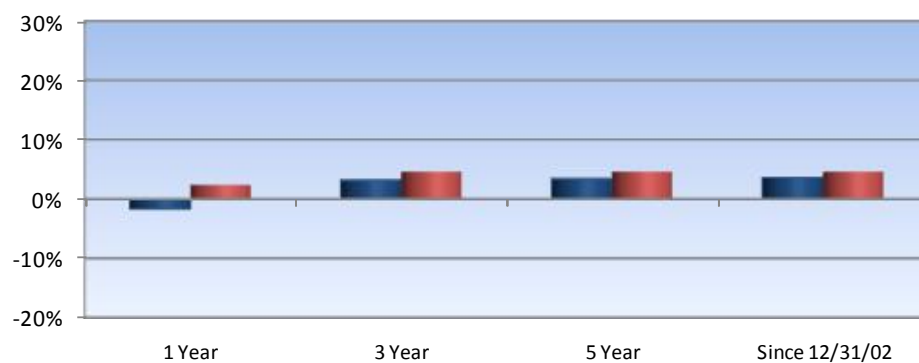
	1 Year	3 Year	Since 8/31/05
■ Global Equity Composite	-37.6%	-4.0%	-1.6%
■ MSCI All-Country World Index	-42.2%	-7.9%	-5.4%

## Non-U.S. Equity Composite



	1 Year	3 Year	5 Year	12/31/02
■ Non-U.S. Equity Composite	-45.0%	-6.9%	2.6%	8.2%
■ MSCI ACWI ex U.S.	-45.2%	-6.6%	3.0%	8.6%

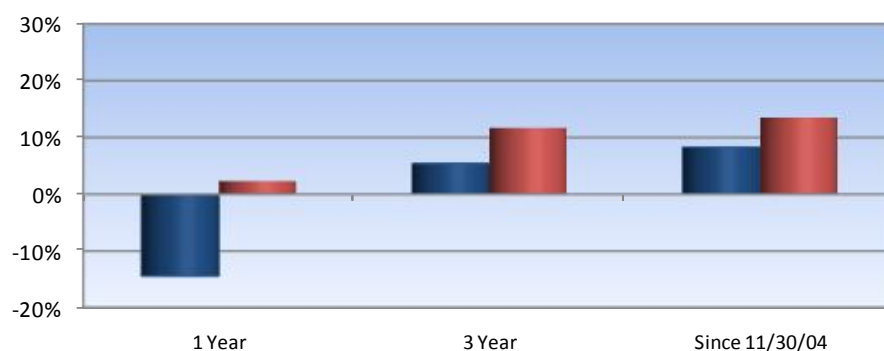
## Fixed Income Composite



	1 Year	3 Year	5 Year	Since 12/31/02
Fixed Income Composite	-1.7%	3.2%	3.4%	3.6%
Benchmark*	2.4%	4.6%	4.6%	4.6%

\*Prior to Sept. 2004, the Citigroup LPF Index. As of September 2004, the fixed income benchmark was gradually transitioned to the Barclays Capital Universal Index. Therefore, from 9/1/04 to 12/31/04, the fixed income benchmark is a compilation of both the Citigroup LPF and the Barclays Capital Universal Index. Beginning 1/1/05, the fixed income benchmark is solely the Barclays Capital Universal Index.

## Real Estate Composite



	1 Year	3 Year	Since 11/30/04
Real Estate	-14.4%	5.4%	8.3%
Benchmark*	2.3%	11.7%	13.5%

\*Prior to March 2006, the DJ Wilshire Real Estate Securities Index. As of March 2006, 75% National Council of Real Estate Investment Fiduciaries Properties Index and 25% DJ Wilshire Real Estate Securities Index.

**Deferred Compensation Plan  
Hartford Life Insurance Company  
(investment options prior to 1997)**

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**ASSET ALLOCATION**

Investment options with Hartford consist of interest bearing deposits in Hartford's General Account plus a large number of retail mutual funds. Some of the mutual funds are managed by Hartford, frequently using a sub advisor. Some are managed by other mutual fund companies. No new contributions are allowed into the Hartford funds. Participants in the Hartford investments have the choice of leaving their balances at Hartford or transferring them to one or more of the current State Deferred Compensation investment fund options.

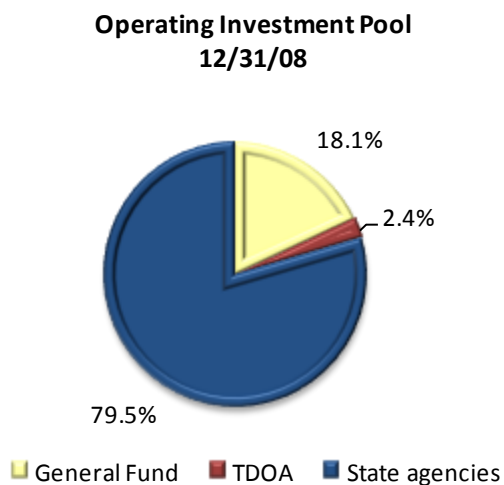
## Operating Investment Pool

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### OVERVIEW

The Nebraska Investment Council invests the available money from the State's general fund and State boards, commissions, departments or agencies, and any other state funds not currently needed, into the Operating Investment Pool (OIP). The Department of Administrative Services calculates the average daily balance for each participant and distributes the earned income monthly on a pro-rata share basis.

From the funds available for investment in the OIP, the Council is required, pursuant to the Nebraska Capital Expansion Act, to offer each qualifying bank and capital stock financial institution in the State a time deposit open account (TDOA). Each institution is allowed up to a \$1,000,000 deposit as long as they satisfy the requirements of the program. The first \$250,000 of the deposit is insured either by the FDIC or the FSLIC. The statute requires the pledging of collateral for deposits greater than \$250,000, with a minimum pledge of 102% of the amount deposited. However, when publicly traded securities are used for collateral, the Council requires 110% for adequate coverage due to fluctuating market values throughout the month. The Nebraska statute also allows institutions to pledge letters of credit. This type of collateral does not have a fluctuating value so when letters of credit are used, 102% is the coverage required by the Council.



### 2008 HIGHLIGHTS

On October 14, 2008, the FDIC created the Temporary Liquidity Guarantee Program (the "TLG Program") and the FDIC adopted final rules related to the TLG Program on November 21, 2008. The notes are senior unsecured debt obligations, are guaranteed by the FDIC under the TLG Program, and are backed by the full faith and credit of the United States government. The OIP has invested an estimated \$30 million in the TLG Program.

During 2008, the Economic Stabilization Act was passed. Through this act, Congress increased the amount of insurance the FDIC provides for a depositor's account at each depository from \$100,000 to \$250,000. This increase is effective until December 31, 2009. Therefore, the Nebraska Investment Council now requires each bank participating in the Time Deposit Open Account program to pledge collateral for deposits greater than \$250,000.

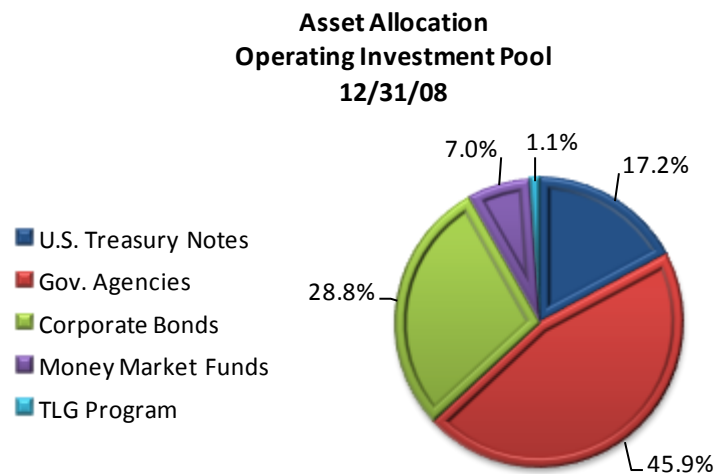


## ASSET ALLOCATION

The portfolio is structured with high quality instruments such as treasuries, government agencies, and corporate bonds with laddered maturities extending ten years. The Council established an Investment Policy Statement for the OIP that includes credit quality and diversification constraints to provide safety of principal, liquidity for the daily cash flow needs of the entities within the OIP, and return on investment. Below are the current portfolio constraints.

U.S. Treasury Securities	15% minimum
Government Agency Securities	50% maximum 15% maximum per issuer
Commercial Paper	5% maximum per issuer
AAA rated Corporate Bonds	30% maximum, 5% per issuer
AA rated Corporate Bonds	20% maximum, 2% per issuer
A rated Corporate Bonds	5% maximum, 1% per issuer
Money Market Funds	15% maximum

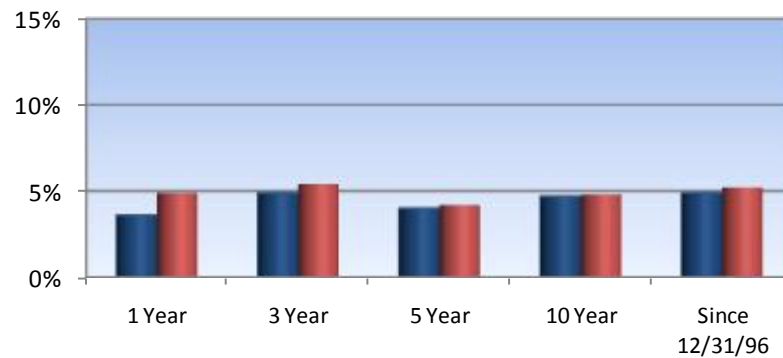
On the following page is a pie chart reflecting the asset allocation of the OIP.



## PERFORMANCE SUMMARY

The underperformance of the portfolio is partially attributed to the benchmark holding 44.5% in Treasuries compared to 17.2% Treasuries held in the OIP. Due to the flight to quality, Treasury securities outperformed the other fixed income securities during 2008. The portfolio also holds a considerable amount of callable agency securities which provide a higher income rate for the

participants. The Fed lowered the Fed Funds rate seven times during 2008 causing many of these bonds to be called and the proceeds to be reinvested in bonds with lower yields.



	1 Year	3 Year	5 Year	10 Year	Since 12/31/96
■ OIP	3.6%	4.9%	4.0%	4.7%	4.9%
■ Benchmark*	4.9%	5.4%	4.2%	4.8%	5.2%

\* 90% Barclays Capital Intermediate Government/Credit Index and 10% Citigroup 30-Day CD. Prior to July 2003, the benchmark consisted of 85% Merrill Lynch 1-3 Year Government/Credit Index and 15% 90-Day T-Bill +15 basis points. Prior to October 1997, the benchmark consisted of 50% Merrill Lynch 1-3 Year Government/Credit Index and 50% 90-Day T-Bill +90 basis points.

## Nebraska Educational Savings Plan Trust

### OVERVIEW

The Nebraska Educational Savings Plan Trust was established by the Nebraska State Legislature with a January 1, 2001, effective date. The Plan is an Internal Revenue Code Section 529 Plan providing tax-deferred growth of funds for higher education costs. Participants may choose between two series of the Nebraska Educational Savings Plan Trust – the College Savings Plan of Nebraska or the AIM College Savings Plan. Within each of these series, there are several types of accounts that are described in further detail below.

### THE COLLEGE SAVINGS PLAN OF NEBRASKA

#### Union Bank Direct Accounts

Individuals may contact Union Bank directly to participate in the College Savings Plan of Nebraska. Participants may choose from the following investment options.

*Age-based Portfolios:* Participant contributions are invested based on the current age of the child and the type of investment style elected. Investments are automatically changed as the child moves from one age bracket to the next.

Age of Beneficiary	Age-Based Aggressive	Age-Based Growth	Age-Based Balanced	Age-Based Conservative
	(Equity/Fixed Income/Real Estate/Money Market)			
Ages 0-5	100/0/0/0	80/15/5/0	60/26/5/9	40/36/5/19
Ages 6-10	80/15/5/0	60/26/5/9	40/36/5/19	20/46/5/29
Ages 11-15	60/26/5/9	40/36/5/19	20/46/5/29	0/50/0/50
Ages 16-20	40/36/5/19	20/46/5/29	0/50/0/50	0/25/0/75
Ages 21+	20/46/5/29	0/50/0/50	0/25/0/75	0/0/0/100

Note: The equity asset class includes both domestic and international equities.

*Target Portfolios:* These portfolios provide a static asset allocation over the life of the account.

	Equity	Fixed Income	Real Estate	Money Market
Fund 100	100%	0%	0%	0%
Fund 80	80%	15%	5%	0%
Fund 60	60%	26%	5%	9%
Fund 40	40%	36%	5%	19%
Fund 20	20%	46%	5%	29%
Conservative	0%	50%	0%	50%

Note: The equity asset class includes both domestic and international equities.

*Individual Fund Portfolios:* Participants may choose from 20 individual fund portfolios for their investment. These portfolios invest in the underlying mutual fund.

Overall, twenty-one investment/mutual funds are utilized within the program, either offered as an individual portfolio and/or used in the target and age-based portfolios. In addition to any manager fees within the funds selected, the Plan imposes a 0.60% annual program manager fee as well as a \$5.00 quarterly account fee.

### Union Bank Advisor Accounts

The College Savings Plan of Nebraska is also offered to individuals who are using the expertise and guidance of a financial advisor. The financial advisor will work with Union Bank to open and transfer money to the participant account.

Participants with a Union Bank advisor account are offered all of the same investment options as those with a direct account. However, participants must elect which fee structure they wish to purchase: Fee Structure A, Fee Structure C, or Fee Structure H. Annual fees and initial sales charges vary depending on which fee structure the participant chooses. The fees are listed below.

	Annual Fee	Initial Sales Charge	Annual Program Manager Fee	Quarterly Account Fee
<i>Fee Structure A</i>	0.35%	3.50%	0.60%	\$5.00
<i>Fee Structure C</i>	0.65%	0.00%	0.60%	\$5.00
<i>Fee Structure H</i>	0.10%	5.75%	0.60%	\$5.00

Mutual fund expenses will also apply. For a more detailed fee schedule, please refer to the College Savings Plan Enrollment Handbook.

### TD Ameritrade Direct Accounts

Participant accounts can be set up directly with TD Ameritrade and participants are offered the same investment options as those offered to participants with Union Bank direct and advisor accounts. Each account is assessed a 0.85% annual management fee and a \$5.00 quarterly account fee. Applicable mutual fund fees will vary by investment choice.

## AIM COLLEGE SAVINGS PLAN

### AIM Accounts

The AIM series allows individuals to participate in the Nebraska 529 Plan while utilizing the expertise and guidance of a financial advisor. Participants may choose from the following investment options which are comprised solely of AIM mutual funds.

*Fixed-allocation Portfolios:* These portfolios provide a static asset allocation over the life of the account. The equity allocation includes domestic and international equities.

- AIM Growth Allocation Fund 529 Portfolio (95% Equity/5% Fixed Income)
- AIM Moderate Growth Allocation Fund 529 Portfolio (80% Equity/20% Fixed Income)
- AIM Moderate Allocation Fund 529 Portfolio (60% Equity/40% Fixed Income)
- AIM Moderately Conservative Allocation Fund 529 Portfolio (40% Equity/60% Fixed Income)
- AIM Conservative Allocation Fund 529 Portfolio (25% Equity/65% Fixed Income/10% Cash Equivalents)

*Enrollment-based Portfolios:* Investments in these portfolios are based on the anticipated time to college enrollment of the beneficiary. Participant accounts are automatically transferred to the appropriate portfolios as the beneficiary ages to the next tier.

	Equity <sup>1</sup>	Fixed Income	Money Market
13-15 Years to College Portfolio	95%	5%	0%
7-12 Years to College Portfolio	80%	20%	0%
4-6 Years to College Portfolio	60%	40%	0%
1-3 Years to College Portfolio	40%	60%	0%
College Now Portfolio	25%	65%	10%

1. Equity allocation includes domestic and international.

*Individual Fund Portfolio:* Participants may choose the AIM Money Market Fund 529 Portfolio. This portfolio invests in the AIM underlying mutual fund.

AIM College Savings Plan participants must elect which class of portfolio shares they wish to purchase: Class A, Class B, or Class C. Annual fees and initial sales charges vary depending on which class of shares the participant chooses. The fees are illustrated on the following page. Each account will also bear its pro-rata share of the fees and expenses charged within the AIM funds that make up each 529 portfolio.

	Annual Fee <sup>1</sup>	Initial Sales Charge <sup>2</sup>	Contingent Deferred Sales Charges <sup>3,4</sup>		Annual Account Fee
<i>Class A</i>	0.35%	5.50%	0.0%	Held < 18 months	\$25.00
		0.00%	1.0%	Held < 18 months	
<i>Class B</i> <sup>5</sup>	1.10%	0.00%	5.0%	Redeemed year 1	\$25.00
			4.0%	Redeemed year 2	
			3.0%	Redeemed year 3 or 4	
			2.0%	Redeemed year 5	
			1.0%	Redeemed year 6	
			0.0%	Redeemed year 7 or after	
<i>Class C</i>	1.10%	0.00%	1.00%	Redeemed < 12 months	\$25.00

1. The annual fee for the first six years on Class B shares is 1.10% if shares are purchased prior to 10/8/02. Thereafter, it is 0.35%. If shares are purchased on or after 10/8/02, the annual fee is 1.10% for the first eight years and 0.35% thereafter.
2. The initial sales charge varies for Class A shares based on the portfolio category of the purchase and the amount of the purchase. The charge listed for Class A shares is based on a purchase under \$25,000 of Class A shares in a Category 1 portfolio. There are also other situations in which the sale charge may be waived. Please see the AIM enrollment handbook for further details.
3. If shares are redeemed within 18 months of purchase, a deferred sales charge of 1.0% is imposed for Class A shares if the initial purchase was part of an initial investment over \$1,000,000 or more made on a single day with the initial sales charge waived. Otherwise, no deferred sales charge is imposed.
4. Deferred sales charges for Class B shares vary depending on the original purchase and what year the redemption occurs. The charges displayed are for purchases made on or after 10/8/02. Please see the AIM enrollment handbook for further details.
5. Class B shares will be converted to Class A shares at the end of the month which is eight years after the date on which the shares were purchased. Class B shares purchased prior to 10/8/02, will convert to Class A shares at the end of the month which is six years after the date on which the shares were purchased.

### State Farm Accounts

State Farm agents market a series of the Nebraska Educational Savings Plan Trust under the State Farm name. Participants may choose from the following investment options which are comprised solely of Oppenheimer mutual funds managed by OFI Private Investments Inc.

*Static Portfolios:* These portfolios provide a static asset allocation over the life of the account. The equity allocation includes domestic and international equities.

- Growth 529 Portfolio (100% Equity)
- Moderate Growth 529 Portfolio (80% Equity/20% Fixed Income)
- Balanced 529 Portfolio (60% Equity/40% Fixed Income)
- Money Market 529 Portfolio (100% Money Market)

*Enrollment-based Portfolios:* Investments in these portfolios are based on the anticipated time to college enrollment of the beneficiary. Participant accounts are automatically transferred to the appropriate portfolios as the beneficiary ages to the next tier.

	Equity <sup>1</sup>	Fixed Income	Money Market
13+ Years to College Portfolio	100%	0%	0%
7-12 Years to College Portfolio	80%	20%	0%
4-6 Years to College Portfolio	60%	40%	0%
1-3 Years to College Portfolio	40%	50%	10%
College Now Portfolio	10%	75%	15%

1. Equity allocation includes domestic and international except for the college now portfolio which is domestic equity only.

At this time, State Farm does not offer an investment option consisting of individual fund portfolios. State Farm College Savings Plan participants must elect which class of portfolio shares they wish to purchase: Class A or Class B. However, only account owners who owned Class B shares prior to November 3, 2008 are eligible to purchase Class B shares. Annual fees and initial sales charges vary depending on which class of shares the participant chooses. The fees are illustrated in the following table. Each account will also bear its pro-rata share of the fees and expenses charged within the Oppenheimer funds that make up each 529 portfolio.

	Annual Fee <sup>1</sup>	Initial Sales Charge <sup>2</sup>	Contingent Deferred Sales Charges <sup>3,4</sup>	
<i>Class A</i>	0.25%	5.50%	0.0%	Held < 18 months
		0.00%	1.0%	Held < 18 months
<i>Class B</i>	1.00%	0.00%	5.0%	Redeemed year 1
			4.0%	Redeemed year 2
			3.0%	Redeemed year 3 or 4
			2.0%	Redeemed year 5
			1.0%	Redeemed year 6
			0.0%	Redeemed year 7 or after

1. The annual fee on Class B shares is 1.10% for the first eight years and 0.35% thereafter.

2. The initial sales charge varies for Class A shares based on the portfolio category of the purchase and the amount of the purchase. The charge listed for Class A shares is based on a purchase under \$25,000 of Class A shares in a Category 1 portfolio. There are also other situations in which the sale charge may be waived. Please see the State Farm enrollment handbook for further details.

3. A deferred sales charge of 1.0% is imposed for Class A shares if the initial purchase was part of an initial investment over \$1,000,000 or more made on a single day with the initial sales charge waived. Otherwise, no deferred sales charge is imposed.

4. Deferred sales charges for Class B shares vary depending on the original purchase and what year the redemption occurs. Please see the State Farm enrollment handbook for further details.

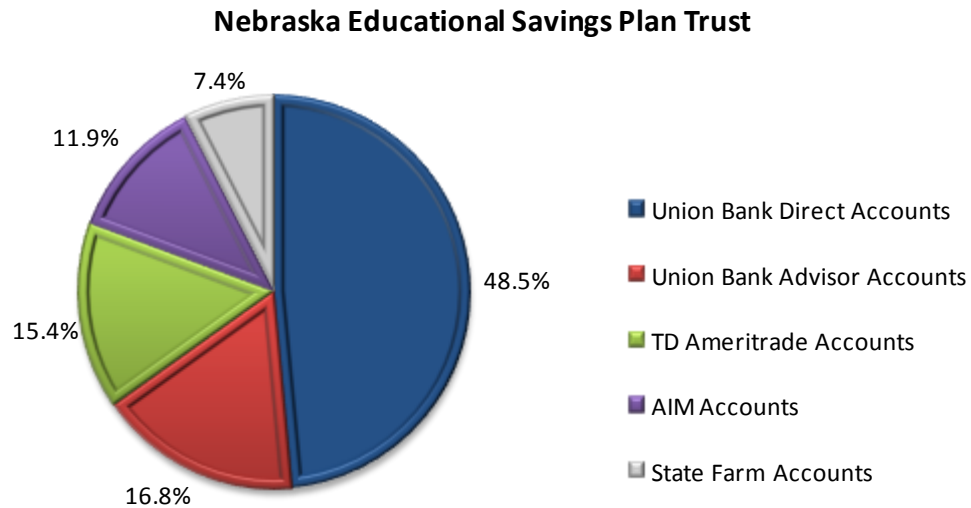
## 2008 HIGHLIGHTS

Effective November 1, 2008, OFI Private Investments, a subsidiary of OppenheimerFunds Inc., became the new investment manager and service provider for the State Farm College Savings Plan. Under the new State Farm Plan, there will be four static portfolios offered and five enrollment-based portfolios offered.



## ASSET ALLOCATION

Within the Nebraska Educational Savings Plan Trust, each participant elects the program series in which they wish to invest. The following is a graphical representation of where participants have chosen to invest their assets as of December 31, 2008.



Within each program series, participants choose their own investment strategy. Please refer to the manager performance section of each series for the return on the 529 portfolios.

## **General Endowment Funds**

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### **OVERVIEW**

Endowment funds are used to provide a perpetual source of funding for the activities of the entities they support. Generally there are two investment objectives – providing some funds for the current year's operations and increasing the portfolio to support future needs. The financial management of an endowment fund consists of a contribution strategy, a distribution strategy, and an investment strategy. Although these strategies are interrelated, the Nebraska Investment Council determines only the investment strategy for these endowments. The assets of the endowments described in this section are commingled to achieve administrative efficiencies and cost savings from economies of scale. The investment strategy is described later in this section.

The basic purpose of each endowment is described below.

#### **The Permanent School Fund**

The endowment receives proceeds from the sales of school land held in trust for public education, payments for easements and right-of-way over the lands, and royalties and severance taxes paid on oil, gas, and minerals produced from these lands. The net income earned on this fund is distributed annually to the K-12 public schools.

#### **The Nebraska Veterans' Aid Fund**

The endowment provides emergency financial assistance to eligible veterans and dependents.

#### **The Cultural Preservation Endowment Fund**

The endowment supports the activities of the Nebraska Arts Council and the Nebraska Humanities Council. Distributions from this fund are conditioned on matching contributions from other sources.

#### **The Agricultural Endowment Fund**

The endowment receives proceeds from sales of land granted by the federal government. Investment income is distributed to the Institute of Agriculture and Natural Resources.

#### **The Permanent Endowment Fund**

The endowment receives proceeds from the sales of land granted by the federal government. Investment income is distributed to the University of Nebraska. This fund is also called the Permanent University Endowment Fund.

#### **The Normal School Endowment**

The endowment receives proceeds from sales of land granted by the federal government. Investment income is distributed for the benefit of the state colleges. This fund is also called the State College Endowment Fund.

#### **The Nebraska Environmental Endowment Fund**

The endowment is funded by the state lottery program and is part of the Nebraska Environmental Trust. The Trust provides grants for the purposes of environmental conservation in Nebraska.

#### **The Bessey Memorial Fund**

The endowment provides aid to widows of University of Nebraska professors.

## The Nebraska Early Childhood Education Endowment Fund

The endowment provides funding for grants to schools and community partners to provide programs serving at-risk children birth to age three.

### **2008 HIGHLIGHTS**

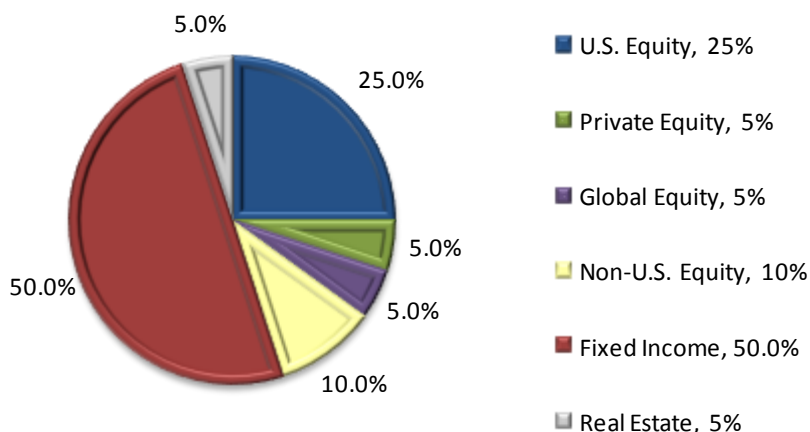
2008 saw three big changes to the investment portfolio. The first two involved the decisions to commit to investments in private real estate and private equity. The elements of further diversification and the opportunity of higher returns were the underpinnings of these decisions. As such, the Council decided to commit \$45 million to Abbott Capital VI, which is a private equity fund-of-funds, on behalf of the combined General Endowments and Health Care Endowment portfolios.

To begin its General Endowments / Health Care Endowment real estate investment program, the Council made commitments to two real estate funds-of-funds. The first real estate commitment was for \$20 million to Metropolitan Real Estate Partners VI. The second real estate commitment was for \$10 million to Metropolitan Real Estate International III.

The last big change was the addition of two new investment managers to the global equity portfolio. One was with Mondrian Investment Partners, Ltd. and the other was with IronBridge Capital Management, L.P.

### **ASSET ALLOCATION**

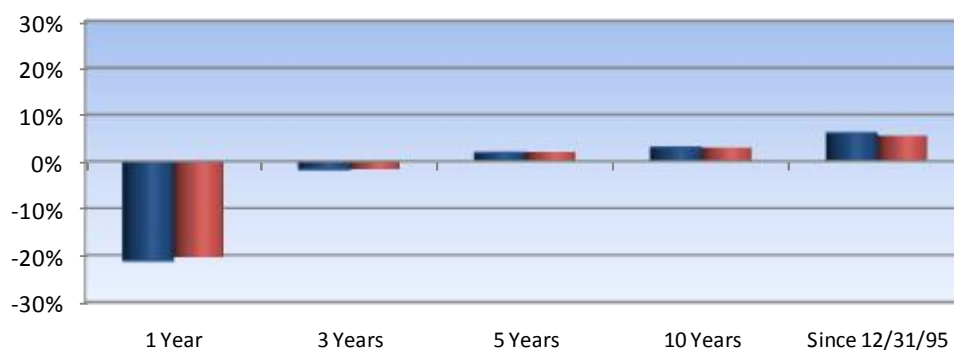
For all of these Funds the Council has selected an investment strategy consisting of U.S. equities, non-U.S. equities, global equities, private equities, real estate and fixed income. Assets designated for private equity and private real estate investment are currently invested in the U.S. equity portfolio.



### **PERFORMANCE SUMMARY**

The total portfolio's rate of return for the year was -21.2% while its benchmark return was -20.4%. The -39.7% return of the US equity portfolio underperformed its benchmark return of -37.2%. The non-US equity portfolio managed to finish the year a bit better than its benchmark, -44.6% versus -45.5%, respectively. The global equity portfolios which had a rate of return of -30.2% outperformed

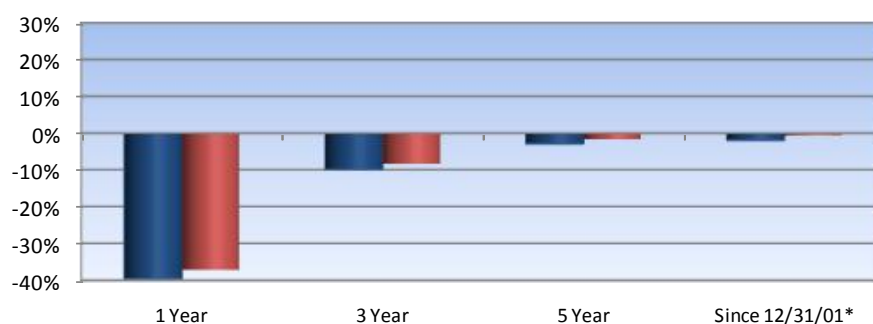
its benchmark rate of -42.2% by a great deal. The fixed income portfolio underperformed its benchmark, 1.8% versus 2.4%, respectively.



	1 Year	3 Years	5 Years	10 Years	Since 12/31/95
General Endowments	-21.2%	-1.7%	1.9%	3.0%	6.1%
Benchmark*	-20.4%	-1.6%	2.0%	2.9%	5.5%

\* Effective September 2005, a composite of 37.625% DJ Wilshire 5000 Index, 10.125% MSCI ACWI ex-U.S., 2.25% MSCI ACWI, and 50% of the fixed income component benchmark.

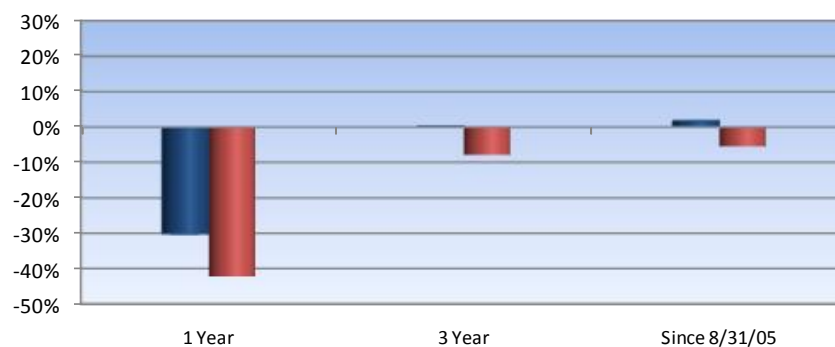
## U.S. Equity Composite



	1 Year	3 Year	5 Year	Since 12/31/01*
U.S. Equity Composite	-39.7%	-9.9%	-2.9%	-2.0%
DJ Wilshire 5000	-37.2%	-8.4%	-1.7%	-0.6%

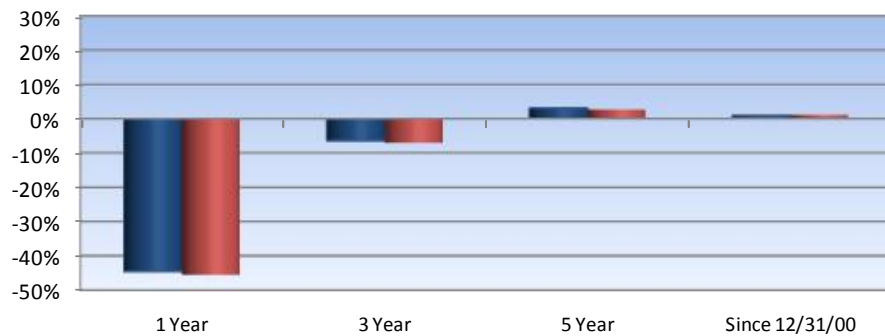
\* Inception date reflects the start date of the current U.S. equity structure.

## Global Equity Composite



	1 Year	3 Year	Since 8/31/05
Global Equity Composite	-30.2%	0.3%	1.8%
MSCI All-Country World Index	-42.2%	-7.9%	-5.4%

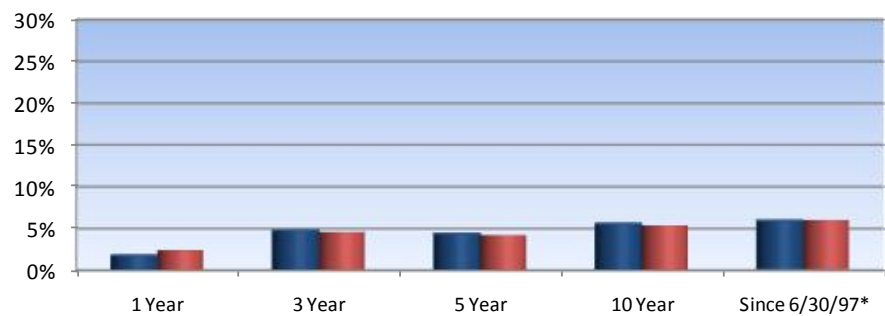
## Non-U.S. Equity Composite



	1 Year	3 Year	5 Year	Since 12/31/00
■ Non-U.S. Equity Composite	-44.6%	-6.5%	3.1%	0.9%
■ Benchmark*	-45.5%	-7.0%	2.6%	1.1%

\* Blended benchmark: 12/31/00 to 3/31/04 MSCI EAFE; 3/31/04 to 5/31/04 MSCI EAFE + Canada; 5/31/04 to present MSCI ACWI ex-U.S.

## Fixed Income Composite



	1 Year	3 Year	5 Year	10 Year	Since 6/30/97*
■ Fixed Income	1.8%	4.8%	4.4%	5.6%	6.0%
■ Benchmark**	2.4%	4.6%	4.2%	5.4%	6.0%

\* Inception date reflects the start date of the current U.S. fixed income structure

\*\* Blended benchmark: 6/30/97 to 3/31/05 Barclays Capital Aggregate Bond Index; 3/31/05 to present Barclays Capital Universal Bond Index

## Health Care Endowment Fund

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### OVERVIEW

The Health Care Endowment Fund is comprised of two distinct state trust funds. These two are the Nebraska Tobacco Settlement Trust Fund and the Nebraska Medicaid Intergovernmental Trust Fund (IGT). Although their external contributions are different, the investments are the same and the spending policy is similar. The Nebraska Investment Council's responsibility is managing the investments only.

### 2008 HIGHLIGHTS

The Tobacco Settlement Trust Fund receives payments from the Master Settlement Agreement (the tobacco settlement). The payment total was \$43.8 million in 2008. The Medicaid IGT payments are controlled by the federal government. There was a Medicaid IGT positive adjustment of \$3.2 million for 2008.

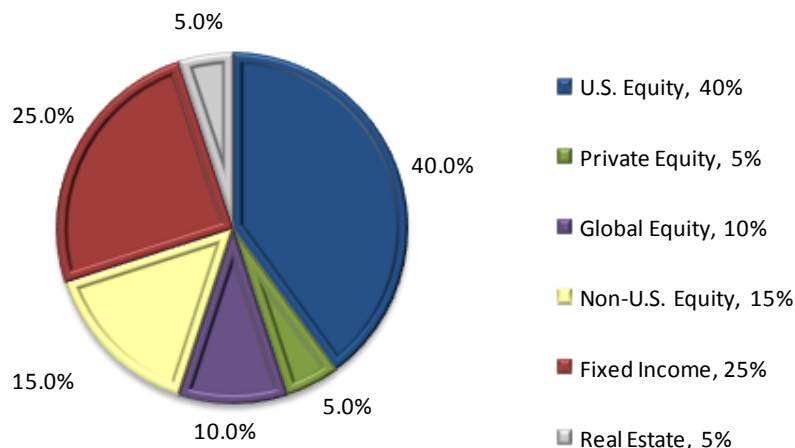
2008 saw three big changes to the investment portfolio. The first two involved the decisions to commit to investments in private real estate and private equity. The elements of further diversification and the opportunity for higher returns were the underpinnings of these decisions. As such, the Council decided to commit \$45 million to Abbott Capital VI, which is a private equity fund-of-funds, on behalf of the combined Health Care Endowment and General Endowments portfolios.

To begin its Health Care Endowment / General Endowments real estate investment program, the Council made commitments to two real estate funds-of-funds. The first real estate commitment was for \$20 million to Metropolitan Real Estate Partners VI. The second real estate commitment was for \$10 million to Metropolitan Real Estate International III.

The last big change was the addition of two new investment managers to the global equity portfolio. One was with Mondrian Investment Partners, Ltd. and the other was with IronBridge Capital Management, L.P.

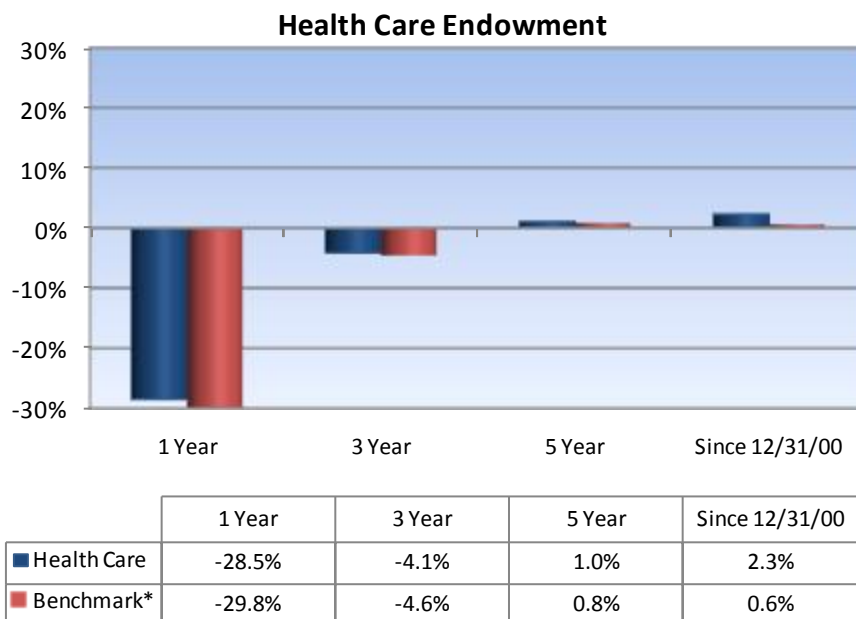
### ASSET ALLOCATION

There are no specific statutory or contractual restrictions on the investment of the Health Care Endowment Fund. For this Fund, the Council has selected an investment strategy consisting of 40.0% U.S. equity, 15.0% non-U.S. equity, 10.0% global equity, 5.0% private equity, 5% real estate and 25% fixed income. Assets designated for private equity investment, are currently invested in the U.S. equity portfolio.





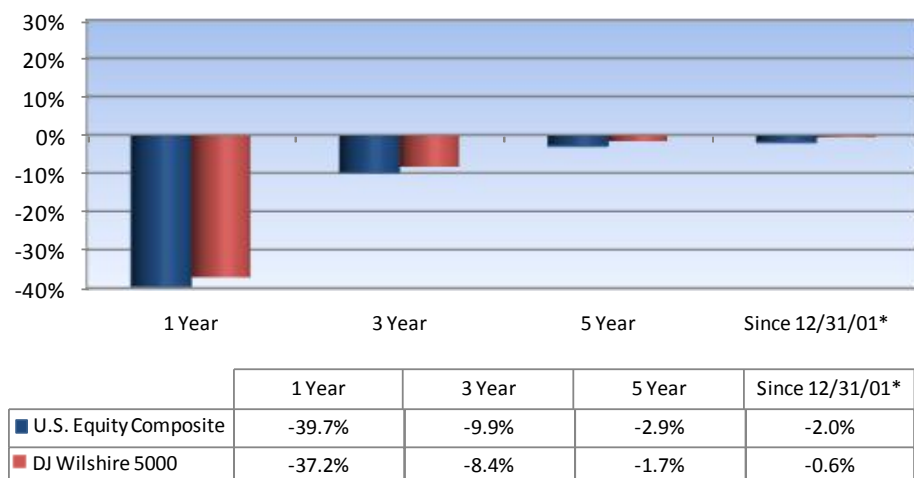
## PERFORMANCE SUMMARY



\* Effective September 2005, a composite of 55.75% DJ Wilshire 5000 Index, 15.75% MSCI ACWI ex-U.S., 3.5% MSCI ACWI, 22.5% Barclays Capital Intermediate Government/Credit Index, 2.5% Citigroup 30-Day CD.

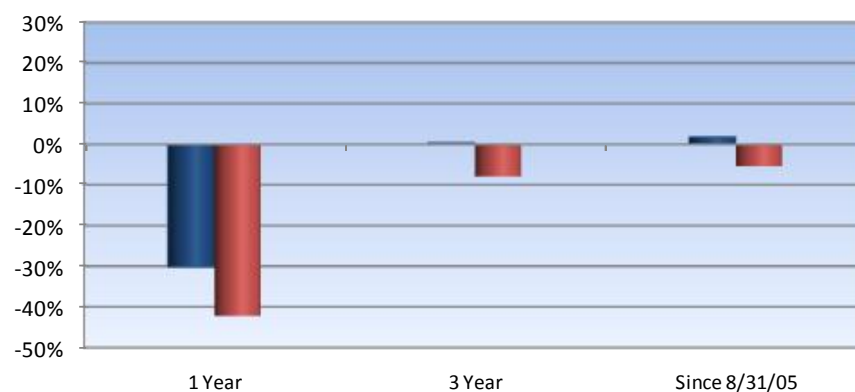
The portfolio's total rate of return for the year was -28.5% which was better than its benchmark return of -29.8%. The US equity portfolio underperformed its benchmark, -39.7% versus -37.2%, respectively. The non-US equity portfolio returned -44.6% and its benchmark rate was -45.5%. Two highlights were the fixed income and global equity portfolios. The fixed income portfolio really outshone its benchmark, 6.3% versus 4.9%, respectively. The rate of return for the global equities portfolio was -30.2% outpacing the -42.2% return of its benchmark.

### U.S. Equity Composite



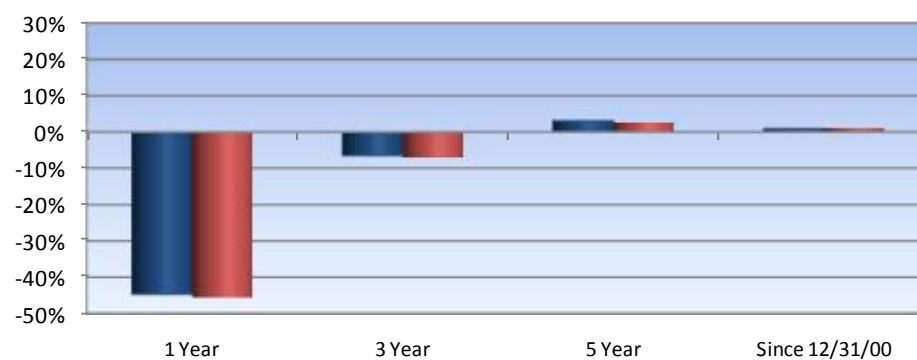
\*Date reflects the start date of the current U.S. equity structure.

## Global Equity Composite



	1 Year	3 Year	Since 8/31/05
Global Equity Composite	-30.2%	0.3%	1.8%
MSCI All-Country World Index	-42.2%	-7.9%	-5.4%

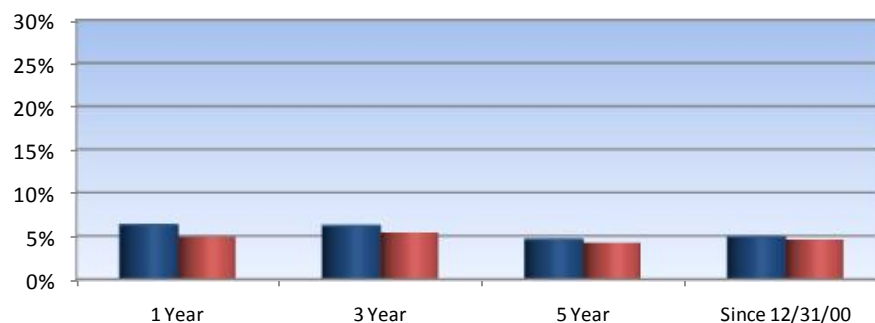
## Non-U.S. Equity Composite



	1 Year	3 Year	5 Year	Since 12/31/00
Non-U.S. Equity Composite	-44.6%	-6.5%	3.1%	0.9%
Benchmark*	-45.5%	-7.0%	2.6%	1.1%

\* Blended benchmark: 12/31/00 to 3/31/04 MSCI EAFE; 3/31/04 to 5/31/04 MSCI EAFE + Canada; 5/31/04 to present MSCI ACWI ex-U.S.

## Fixed Income Composite



	1 Year	3 Year	5 Year	Since 12/31/00
Fixed Income	6.3%	6.2%	4.6%	4.9%
Benchmark*	4.9%	5.4%	4.2%	4.6%

\* As of 7/1/03, the benchmark is 90% Barclays Capital Intermediate G/C/10% Citigroup 30-Day CD

## University Funds

### OVERVIEW

The University Funds are comprised of the University of Nebraska Fund N and the Restricted Fund. The investment manager for Fund N and the Restricted Fund is the University of Nebraska Foundation.

#### Fund N

Fund N was established from the Othmer-Topp Endowment Fund received from the estates of Mildred Topp Othmer and Donald F. Othmer, and approximately 225 permanent and quasi endowments. The Othmer-Topp bequests are to be held in perpetuity and used in accordance with the last will and testament of Mildred Topp Othmer for University purposes as directed by the Board of Regents.

#### Permanent and Quasi Endowments

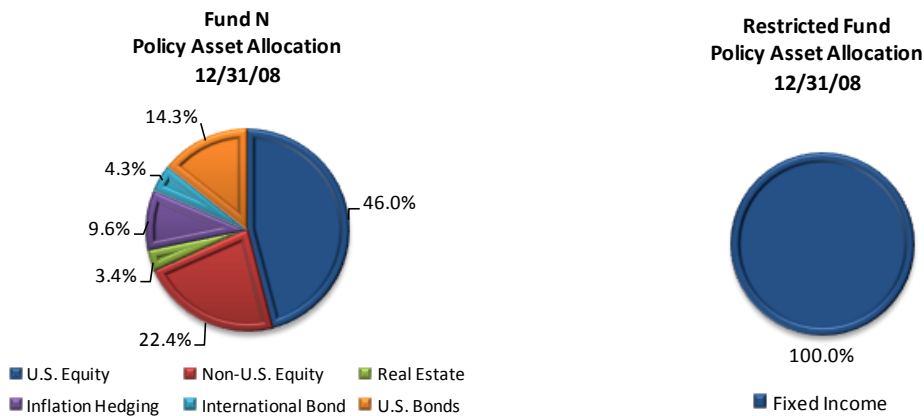
The Permanent and Quasi Endowments represent the commingled investments of approximately 80 individual permanent endowments and 145 quasi endowments. The Permanent Endowments includes funds for which the benefactors and donors have directed the corpus be held in perpetuity, invested, and the income spent for the purposes designated by them. The Quasi Endowments contain funds that the Board of Regents has designated to function as endowments, with the income to be spent for the purposes designated by the Board.

#### Restricted Fund

The Restricted Fund is comprised of several funds that are restricted by the benefactors to be invested in U.S. Government and U.S Agency fixed income securities only. This is a permanent endowment fund.

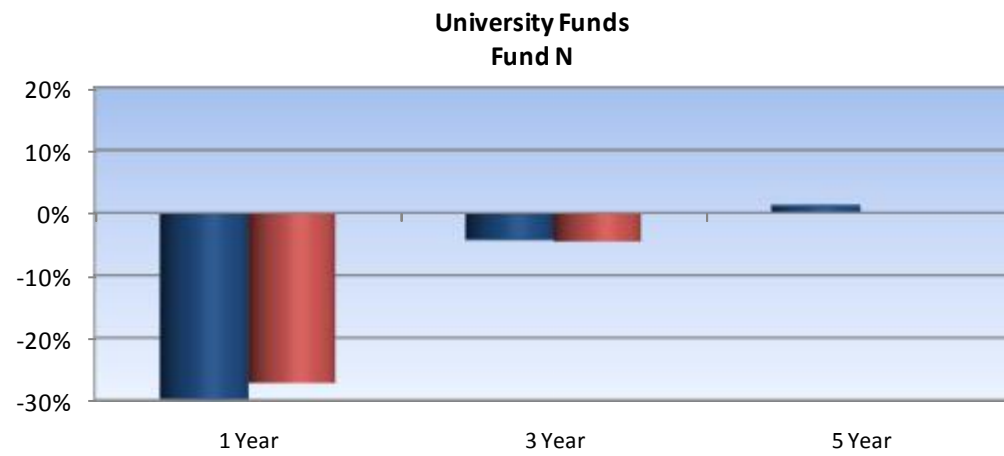
### ASSET ALLOCATION

The asset allocation strategies for the University Funds are displayed below.



### PERFORMANCE SUMMARY

Performance information for the University of Nebraska Fund N is presented below. Fund N performance information was provided by the investment manager – the University of Nebraska Foundation. At this time, the performance information for the Restricted Fund is not available.



	1 Year	3 Year	5 Year
■ Fund N	-29.8%	-4.3%	1.1%
■ Benchmark*	-27.2%	-4.6%	-0.2%

\*The benchmark is a weighted average comprised of 73% S&P 500 and 27% Barclays Capital Aggregate Bond Index.

## PORTFOLIO MANAGERS

Fund N and the Restricted Fund are managed by the University of Nebraska Foundation.

## Miscellaneous Trusts Excess Liability Fund

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### OVERVIEW

This Fund was created by the Nebraska Hospital-Medical Liability Act. Contributions consist of insurance premiums from certain health care providers and a surcharge levied on all health care providers in the State. The funds are used to pay judgments against the insured health care providers. The Nebraska Investment Council does not determine the distribution policy.

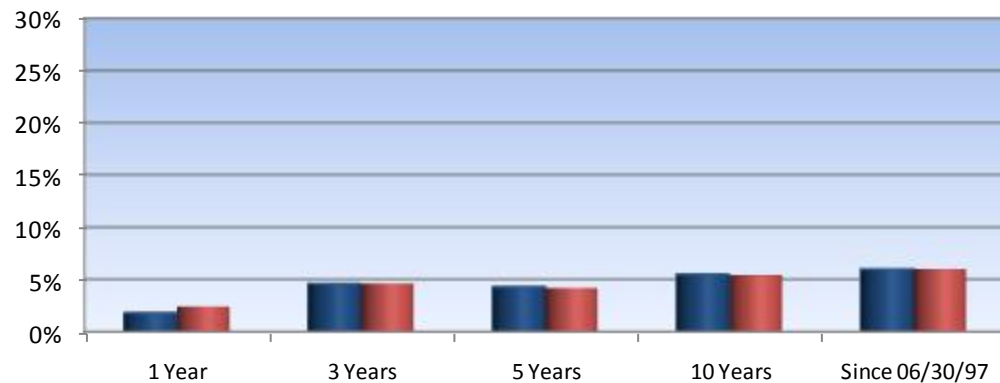
### 2008 HIGHLIGHTS

There were no substantive changes in the investment policy or investment managers of this Fund during 2008.

### ASSET ALLOCATION

This Fund is invested exclusively in fixed income securities. The assets of the Excess Liability Fund are commingled with the fixed income assets of the General Endowment Funds.

### PERFORMANCE SUMMARY



	1 Year	3 Years	5 Years	10 Years	Since 06/30/97
■ Excess Liability Fund	1.8%	4.6%	4.3%	5.5%	6.0%
■ Benchmark*	2.4%	4.6%	4.2%	5.4%	6.0%

\* Blended benchmark: 6/30/97 to 3/31/05 Barclays Capital Aggregate Bond Index; 4/1/05 to present Barclays Capital Universal Bond Index.

## Miscellaneous Trusts

### Aeronautics Trust Fund

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#### OVERVIEW

This Fund receives the proceeds from the sale of state-owned airfields. Investment income is used to pay expenses of the Department of Aeronautics. The Nebraska Investment Council does not determine the distribution policy.

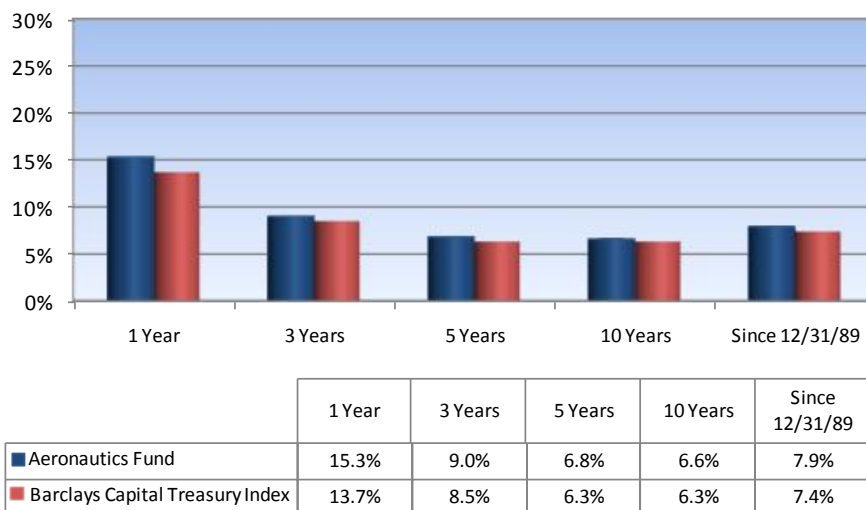
#### 2008 HIGHLIGHTS

There were no changes in the investment policy or the investment managers of this Fund during 2008.

#### ASSET ALLOCATION

Pursuant to contractual restrictions, these assets are invested in securities issued by the U.S. government or its agencies only. The assets are not commingled with other entities.

#### PERFORMANCE SUMMARY



## Miscellaneous Trusts

### Agricultural Development Fund

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#### OVERVIEW

This Fund consists of money received from the U.S. Department of Agriculture. Income from the Fund is used to pay expenses of the Nebraska Department of Agriculture. The Nebraska Investment Council does not determine the distribution policy.

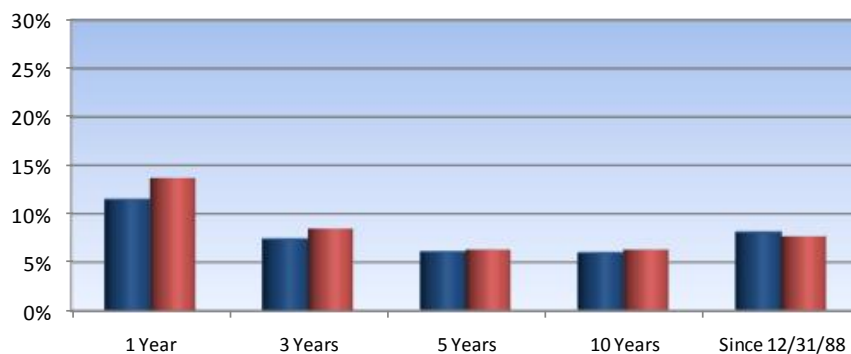
#### 2008 HIGHLIGHTS

There were no changes in the investment policy or the investment managers of this Fund during 2007.

#### ASSET ALLOCATION

Pursuant to contractual restrictions, these assets are invested in securities backed by the full faith and credit of the United States government only. The assets are not commingled with other entities.

#### PERFORMANCE SUMMARY



	1 Year	3 Years	5 Years	10 Years	Since 12/31/88
■ Ag Development Fund	11.5%	7.4%	6.1%	6.0%	8.1%
■ Barclays Capital Treasury Index	13.7%	8.5%	6.3%	6.3%	7.7%

The underperformance for the year was due to the mismatch between the portfolio and the benchmark. Currently, the portfolio has a minimum requirement of 25% mortgage-passthrough securities while the benchmark is the Barclays Capital Treasury Index. During the year, the treasury sector outperformed GNMA's by almost 600 basis points. Since inception returns on the portfolio have outperformed the benchmark.

## Miscellaneous Trusts

### Joseph J. Soukup Trust Fund

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#### OVERVIEW

This Fund was established to provide a lifetime income benefit to Joseph J. Soukup. The principal in the Fund reverts to the State upon his death.

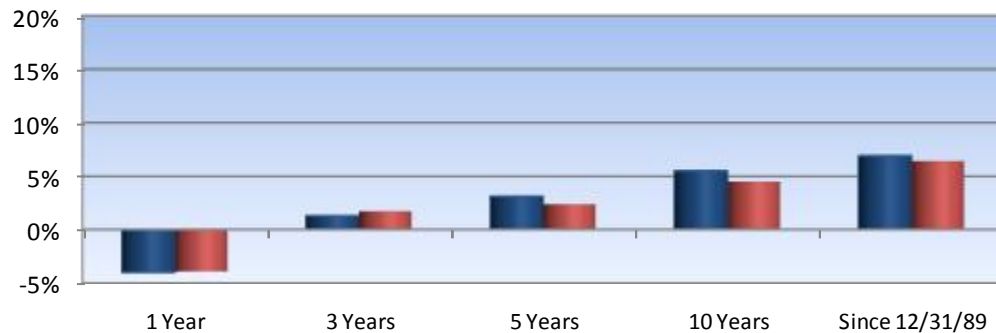
#### 2008 HIGHLIGHTS

In September 2008, an increase in the monthly income benefit to Joseph J. Soukup was granted. The new income benefit is \$1,330 per month, an increase from the prior year's payout of \$1,290 per month.

#### ASSET ALLOCATION

These assets are invested in a portfolio of high quality fixed income securities designed to provide Mr. Soukup with a stable income stream that will increase over time to offset inflation. The assets are not commingled with other entities.

#### PERFORMANCE SUMMARY



	1 Year	3 Years	5 Years	10 Years	Since 12/31/89
■ Soukup	-4.0%	1.3%	3.1%	5.5%	6.9%
■ Benchmark*	-3.9%	1.7%	2.4%	4.5%	6.4%

\* As of September 2006, the Baraclays Capital Long Credit Index. Prior to September 2006, the Barclays Capital Aggregate Bond Index.



# Miscellaneous Trusts

## Department of Environmental Quality Funds

### The Drinking Water Recycled Bond Proceeds Fund

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#### OVERVIEW

The Drinking Water Fund was created in 1997. The Nebraska Department of Environmental Quality (NDEQ), in cooperation with the Nebraska Investment Finance Authority (NIFA), issues revenue bonds to finance the costs incurred in planning, designing, and constructing eligible safe drinking water projects for public and private entities in the State of Nebraska. The repayment of the principal is deposited into the Recycled Bond Proceeds Fund. Pursuant to the bond indenture, the Nebraska Investment Council is responsible for the investment of these funds.

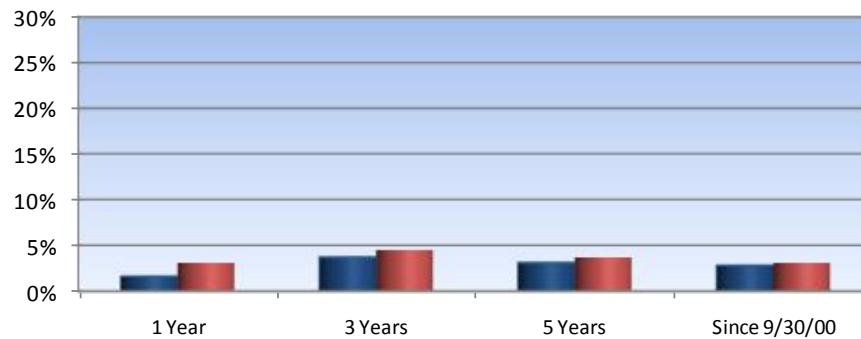
#### 2008 HIGHLIGHTS

There were no changes in the investment policy or the investment managers of this Fund during 2008.

#### ASSET ALLOCATION

In order to satisfy the requirements of the indenture, the Goldman Sachs Financial Square Treasury Fund has been selected by NDEQ, NIFA, and the Council as the most appropriate investment. The Fund provides for the safety of principal, accessibility of funds, and income requirements mandated.

#### PERFORMANCE SUMMARY



	1 Year	3 Years	5 Years	Since 9/30/00
■ NDEQ-Recycled Bond Proceeds Fund	1.6%	3.7%	3.1%	2.8%
■ Citigroup 30-day CD index	3.1%	4.5%	3.7%	3.1%